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National Association of Purchasing Management

Report On Business®

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Purchasing Index Reaches 61.8%

Production, New Orders Increase 10th Straight Month

Prices Up 14th Straight Month

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

Stock market gyrations notwithstanding, the economy continued its strong growth trend in October, say the nation's purchasing managers in their latest **Report on Business.** Production rose, but at a somewhat slower pace than in September. New orders increased for the 10th consecutive month and, considering seasonal factors, were exceptionally strong. The speed of vendor deliveries slowed again, reflecting the substantial growth in production and new orders. Employment grew in October for the seventh time in the last eight months. Inventories declined after being flat last month. October marked the 14th consecutive month that more purchasers reported price increases than decreases.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. Said Bretz: "Notwithstanding what happened with the stock market, the economy entered the fourth quarter as it ended the third, with vigorous growth. Virtually all indicators were positive and the strength of new orders definitely suggests continued growth in November."

The **Purchasing Managers' Composite Index** climbed to 61.8% in October, up from 60.7% in September; this is the 15th consecutive month this leading economic indicator has exceeded 50%. At 61.8%, the index is at its highest since December 1983 (69.9%). Noted Bretz, "The Purchasing Index has averaged 57.1% for the first 10 months of 1987. Based on past experience, if this average were to continue for the remainder of 1987, it would be consistent with real GNP growth of 4.0%." A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment expanded in October for the seventh time in the past eight months. The rate of growth was brisk, marking the third consecutive month in which the rate of growth increased from the previous month. This is especially significant considering a string of 29 consecutive months of employment decline only ended in February 1987.

Employment	% Higher	% Same	% Lower	Net
October	19	69	12	+7
September	19	68	13	+6
August	16	71	13	+3

Buying Policy

Lead times for production materials expanded in October as the number of members reporting lead times of 60 days or more increased to 48%, up from 42% in September. Lead times for capital expenditures lengthened for the second consecutive month as the number of purchasers reporting lead times of six months and longer rose to 55%, up from 52% in September and 50% in August. Lead times for maintenance, repair and operating (MRO) supplies declined as the number of members reporting lead times of 30 days or fewer rose to 87%, up from 82% in September.

Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
October	18	34	25	14	9
September	17	41	22	13	7
August	14	40	28	13	5
MRO Supplies					
October	42	45	9	3	1
September	42	40	11	5	2
August	41	45	9	5	0
Capital Expenditures					
October	8	7	13	17	55
September	10	8	13	17	52
August	8	7	11	24	50

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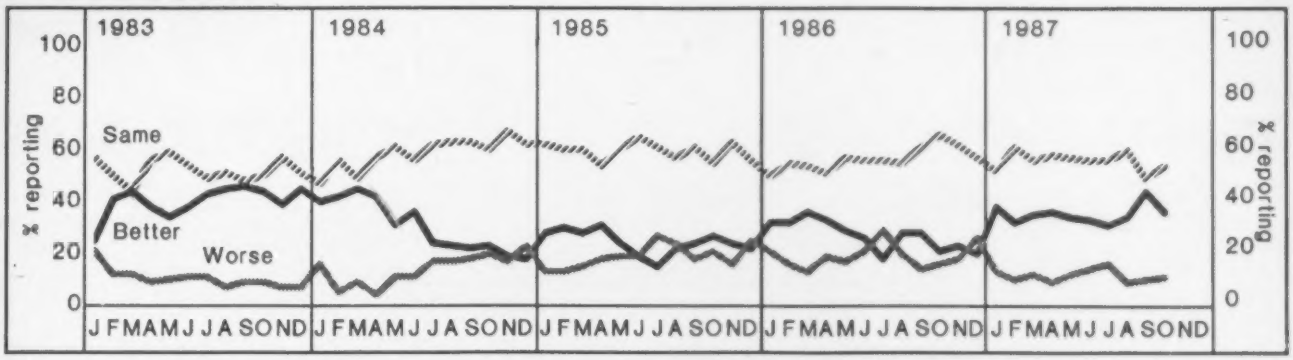
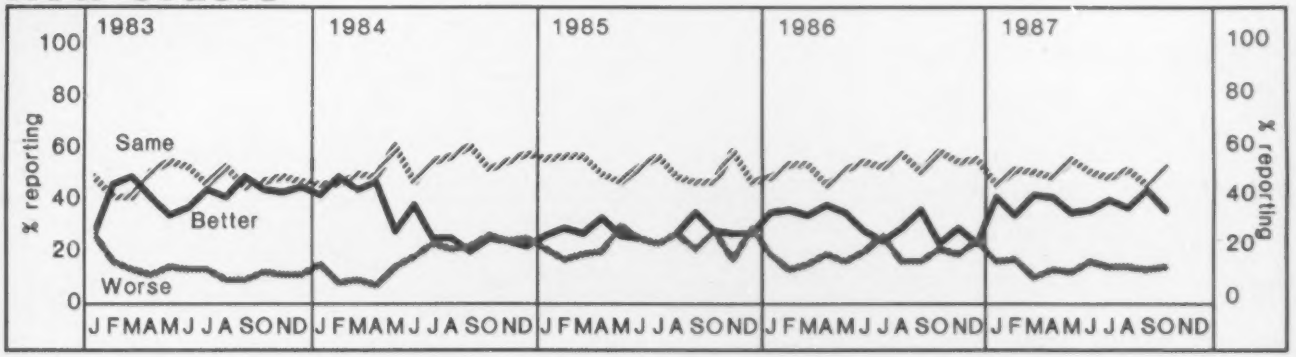
Production



Production expanded in October as expected from the brisk increase of new orders in September. This marks the 10th consecutive month production has grown, although the rate of growth was somewhat slower than last month.

Production	% Better	% Same	% Worse	Net
October	35	55	10	+25
September	43	48	9	+34
August	33	59	8	+25

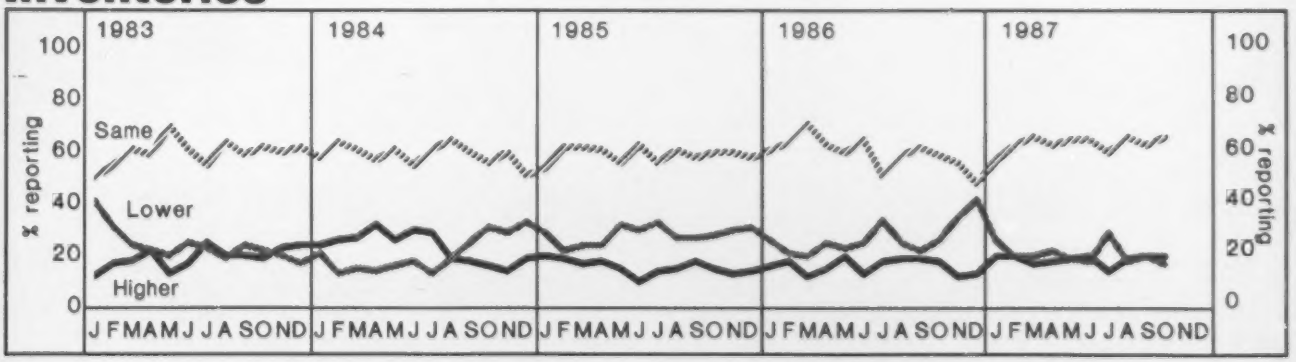
New Orders



New orders expanded in October, marking the 10th consecutive month of growth. Considering normal seasonal slowing, the rate of growth is substantial and is a signal that production will continue to be strong in November.

New Orders	% Better	% Same	% Worse	Net
October	35	52	13	+22
September	43	45	12	+31
August	36	51	13	+23

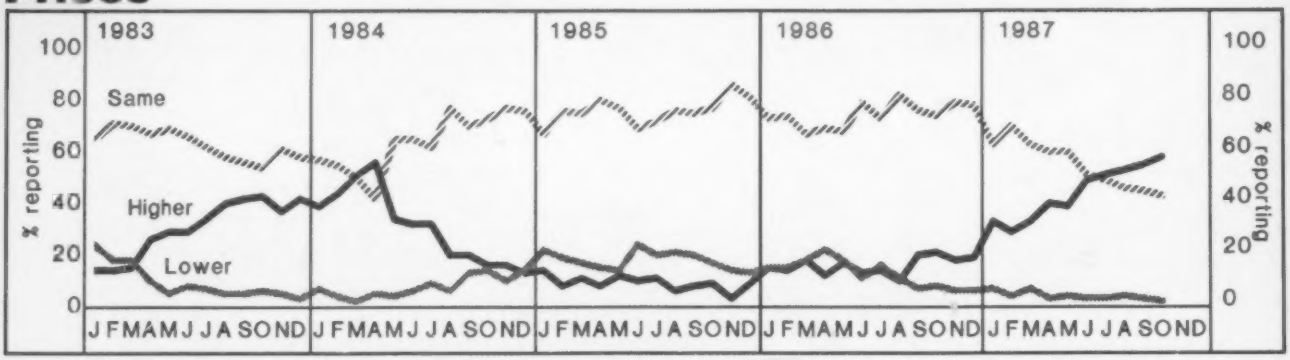
Inventories



Inventories decreased in October, after remaining flat in September. This suggests that the continuing growth in the economy was not aided by a build-up in inventories.

Inventories	% Higher	% Same	% Lower	Net
October	16	65	19	−3
September	19	62	19	0
August	18	65	17	+1

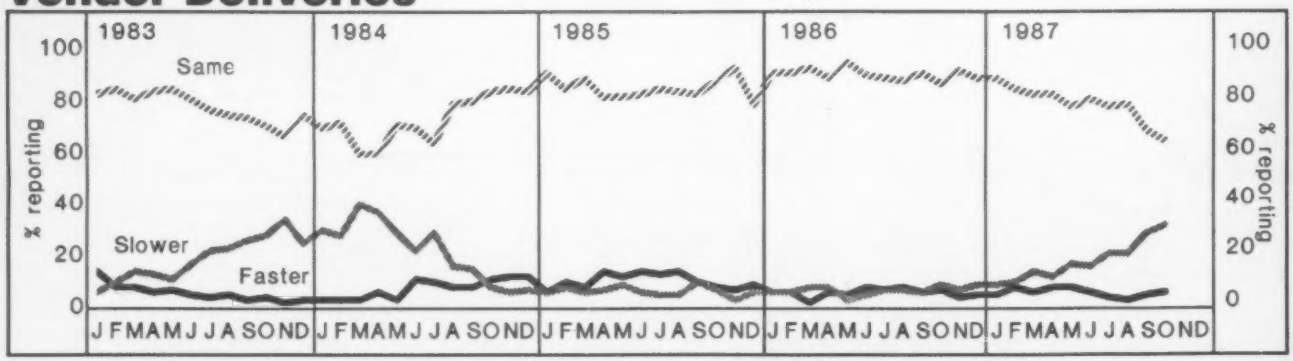
Prices



October marked the 14th consecutive month in which more purchasers reported price increases than decreases. The net difference (+56) between those reporting higher prices (57%) and lower (1%) increased for the fifth consecutive month and is the highest since January 1981 (+59). The price increases were selective and essentially in paper, metal and plastic-related products.

Prices	% Higher	% Same	% Lower	Net
October	57	42	1	+56
September	54	44	2	+52
August	52	45	3	+49

Vendor Deliveries



The speed of vendor deliveries slowed again in October. This marks the 13th consecutive month of slowing for this leading indicator. The 31% reporting slower vendor deliveries is the most since April 1984 (36%). This continued slowing, coupled with the short supply of many metal- and plastic-related commodities, confirms the robust growth in the economy.

Vendor Deliveries	% Faster	% Same	% Slower	Net
October	5	64	31	−26
September	4	68	28	−24
August	2	78	20	−18

Specific Commodity Changes

Paper-related products reported up in price in October were corrugated shipping containers (18th time in 19 months), printing paper (eighth time in last 10 months), paper products (second consecutive month) and kraft linerboard (third time in past four months). Caustic soda was reported up in price for the 11th consecutive month.

Metal commodities reported up in price were steel (13th time in past 14 months), various steel products, aluminum (ninth consecutive month), copper (eighth consecutive month) and nickel (second time in past three months).

Petroleum-derived chemicals and plastic-related items up in price included propylene (third time in past four months), polypropylene resin and plastic resins and products (both for fifth consecutive month). Two items used in textile manufacturing were also reported up in price: cotton and color dyes and concentrates.

Reported as short in supply were aluminum, steel (seventh time in past eight months), steel plate (fourth consecutive month), steel sheets (sixth consecutive month), caustic soda (fifth consecutive month) and titanium dioxide (third consecutive month). For the second consecutive month, no significant items were reported down in price and no petroleum products were reported up in price.

UP IN PRICE: Corrugated shipping containers, kraft linerboard (used in making corrugated shipping containers), printing paper, paper products, caustic soda (used heavily in paper making and petroleum refining), aluminum, copper, nickel, steel (particularly steel bars, castings, plate, pipe and hot- and cold-rolled sheets), plastic resins, polypropylene resins (used in making thermoplastic plastics or fibers) plastic products, propylene (used heavily in making polypropylene), acrylic acid (used heavily in making varnishes and lacquers), cotton, color dyes and concentrates (used in textile production), carbon black (used heavily in making tires and industrial rubber products) and miscellaneous chemicals.

DOWN IN PRICE: None.

IN SHORT SUPPLY: Aluminum (particularly ingot), steel, steel plate, hot- and cold-rolled steel sheets, acrylic acid, styrene (used chiefly in making synthetic rubber, resins and plastics), caustic soda and titanium dioxide (a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

Note: The next issue of *Report on Business* will be available Nov. 30, 1987.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee. Chair: Carl D. Dirkse, Johnson Wax, Racine, Wisconsin.

The packaging market can be characterized by heavy production and rising prices. Both domestic and export demands remain strong. One member reports: "I have never seen the market like this on my packaging items." Some shortages are appearing.

Metal Cans: Supply is adequate with prices stable to rising. Some overall market share is being lost to plastic but usage for beer, soft drinks and aerosol is increasing. The Can Manufacturers Institute is encouraging more recycling by sponsoring the Great Aluminum Can Roundup in seven test markets.

Fibre Cans: Supply appears to be adequate. Some members report price increases because of linerboard increases.

Glass: Generally, prices are stable and supply is adequate, but there are some scattered reports of supply tightness and price increases. Anchor Glass Containers has acquired Diamond-Bathurst operations. Production in Atlanta is being suspended. On the positive side, 1986 was the first year in this decade that shipments of glass containers increased over the previous year. Shipments were up 5% and are up another 5% so far this year. Growing markets are wine coolers, single-service juices and microwaveable products.

Molded Plastics: Some tightness of supply is being experienced as a result of heavy demand and shortages of certain resins. Price increases have been rampant all year on resins; consequently, molded product prices are increasing. Additional resin capacity will be coming on stream in 1988. New technological developments in barrier resins are being made, and consequently new applications are being found. Test marketing has begun on the first all-plastic hot-fill PET bottles. Test marketing has also begun on seltzer drinks in plastic cans.

Films: Supply is adequate to tight and some members report shortages and long lead times. This heavy demand, coupled with numerous resin increases, is causing prices to continue to escalate.

Laminated Stock: The situation here is similar to films — some tightness of supply with increasing prices.

Metal Drums: After years of overcapacity and falling prices the metal drum market is firming. Supply is still adequate but prices are rising as a result of a better supply/demand ratio and steel price increases.

Fibre Drums: Supply and demand for fibre drums are pretty well in balance. However, prices are rising because of increasing linerboard prices. Some business is being lost to plastic.

Folding Cartons: After years of overcapacity, the folding carton market is strengthening because of increased demand and consolidations in the industry. New uses for microwaveable containers are being found. This strong market is causing significant price increases and lengthening lead times.

Corrugated: Corrugated has been a seller's market in 1986 and 1987. Prices have been rising all through this period and there is speculation about further increases. Year-to-date shipments are running 4.6% ahead of last year. Export demand is strong because of the weak dollar. An International Paper Company report forecasts continued increasing consumption of containerboard, but Wharton Econometrics forecasts a slowdown of demand in the fourth quarter and reduced pressure on prices.

Bags: Bags have the same characteristics as other products made from plastic resins and paper — strong demand and increasing prices. The fight for market share between paper and plastic continues.

Paper Products

Prepared by the N.A.P.M. Paper Committee. Chair: Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, California.

The general condition of the paper industry can be summed up in a few words: limited additions to capacity, continued increased demand, numerous labor problems and price increases. Paper industry earnings are dramatically improved over 1985 and management seems intent on continuing this trend as long as the strong demand and limited capacity additions continue.

Newsprint: Newsprint is tight and getting tighter. Very limited capacity increases are scheduled this year. A price increase of approximately 7% became effective last July. The preliminary indication is another increase January 1 of approximately the same percentage. Imports of newsprint are up 7% in the first half of 1987. We have heard mixed reactions regarding the status of inventories. Deliveries of this commodity are predictable and can be scheduled far in advance.

Coated Groundwood: An article published in May talked about the groundwood glut caused by the start-up of four new machines in late 1986. The article says there will be an additional 10.2% increase in capacity in 1987 thanks to these machines. It then says the market has been unable to digest this new capacity. Reports from committee members show that this item is virtually on allocation. Further, this tight market is expected to continue through the first quarter of 1988. There likely is some inventory building because of the tight conditions. Further, prices have definitely firmed and likely will remain firm as long as this grade is in short supply.

Uncoated Freesheet: This grade also continues to be in strong demand. Growth of this commodity was 6.8% in 1986. Although the forecast is only for a 3.5% growth this year, freesheet, too, is constantly on the verge of being in short supply. Imports of uncoated free are down about 7% from last year and exports are about 12% ahead, both due to the value of the dollar. This grade has been affected somewhat by labor conditions at several mills and likely will remain tight until late 1988 since no new capacity is scheduled until that time. There have been almost constant price adjustments on various grades within this commodity group. This too will continue into 1988. There was some indication of decline of inventories earlier this year but likely inventories at the consumer level are increasing. Mill inventories are decreasing.

Coated Freesheet: The status of this commodity is almost identical to that of coated groundwood. Capacity is increasing but demand is increasing slightly faster. Shipments in the first seven months 1987 were 10.7% above the previous year. In addition, imports through the first six months were 22% above last year. In spite of all of this, coated freesheet is very tight and some respondents indicate allocations. Price increase expected in October. Inventories are increasing where possible. With 1988 being an election year the demand for this grade will likely continue very strong.

Bleached Bristols: This is probably the only commodity we can report as having good availability. Even though no new capacity is being added, delivery times are normal and labor problems have not affected deliveries. Watch for possible price increase on unbleached kraft in the fourth quarter. Inventories are stable with some decreases noted.

Paperboard/Linerboard: August was the 12th consecutive month in which record corrugated box shipments have been established. Shipments year-to-date are 4.6% ahead of last year. This means production of containerboard continues to rise — in this case, at a level of 7% for the first seven months of 1987. This grade is also very active in the export marketplace, again due to the value of the dollar. Paperboard demand is strong and SBS availability is tightening. Deliveries are out about four to five weeks. Inventories are stable. Some increases have been taken in linerboard; some paperboard also will be increasing. Further increases are expected in 1988 on all grades.

Pulp: Almost all paper and paperboard grades start out with pulp. When the end product is reported to be strong, it logically follows that the raw material must also be doing well. This is precisely the case. The fourth-quarter price increase was just posted. This is now the seventh consecutive quarterly price increase for Northern Bleached Softwood Kraft. Current price is $610 a ton in the U.S., but some expect price increases to continue until it reaches the $700 level. On the bright side, recycled grades are constantly increasing in price, especially the pulp substitute grades. Production is up 8.8% from last year. Shipments are somewhat less than production, which indicates a rebuilding of some of the most depleted inventories. However, inventories only relate to approximately 16 days of supply.

In general, the news about paper is good if you are a seller and bad if you are a buyer. Worldwide, paper and paperboard production increased by 5.1% in 1986 to a high of 203.1 million metric tons.